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ABSTRACT

The Packwood/Moynihan/Roth Tuition Tax Relief Act of 1981 and the nearly 20 other tuition tax credit bills introduced since the beginning of the current session of Congress are intended to provide tax credits for a portion of the tuition paid for private education. Two major studies attempting to determine the impacts of passage of a tuition tax credit law were published by Martha J. Jacobs and the Congressional Budget Office. Both studies found that tuition tax credits would lead to disproportionate distribution of benefits--favoring white, middle-to-upper income, and Southern families--and could result in a significant loss of revenue to the federal government. (Author/PGD)

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TUITION TAX CREDITS:

A Review of Current Proposals and Their Potential Impacts

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In March 1980, a paper titled Tuition Tax Credits: Current Status and Policy Issues was prepared for a meeting of the Chief State School Officers of the Northwest. The paper discussed (a) the major constitutional issues surrounding the implementation of legislation for tuition tax credits; (b) some of the then current proposals for tax credits; and (c) the policy implications of such legislation.

The election of Ronald Reagan to the Presidency and the new Republican majority in the United States Senate has led to a renewed interest in tuition tax credits this year. Although differing versions of a tuition tax credit bill were passed by both houses of Congress in 1978, the bill died during the closing hours of the 95th Congress because the Conference Committee could not reach a compromise. Interest in similar legislation seemed to dissipate during the 96th Congress, largely because of President Carter's threat of a veto. However, President Reagan's indication of support for some form of tuition tax credits, and the Republican Party's Platform Statement which says, "We reaffirm our support for a system of educational assistance based on tax credits that will in part compensate parents for their financial sacrifices in paying tuition at the elementary, secondary and post-secondary level..." have led to the introduction of a number of tuition tax credit bills in this session of Congress.

The purpose of this paper is to provide the Chiefs with an executive summary of current proposals before Congress, and provides a summary of several studies which have attempted to determine the expected impacts of tuition tax credits.

Current Proposals

The most talked about of the tuition tax credit bills is the Packwood/Moynihan/Roth "Tuition Tax Relief Act of 1981" (S. 550) introduced in February 1981. This bill would allow a tax credit for 50 percent of elementary, secondary, vocational and college tuition, up to a maximum of $250 per student in 1982, with the maximum increasing to $500 in 1983. The bill provides that in 1984, half-time and graduate students would also be eligible for the tax credit. In addition, the tax credit is refundable. This means that if parents have a tax liability that is less than the credit to which they are entitled, the credit claimed will be paid to them.

According to Senator Packwood's office, the sponsors of the bill have agreed to negotiate on the level of the tax credit if the admininstration feels this is necessary to meet projected reductions in budget targets. Therefore, it is likely that changes will be made in the current proposal.

There are nearly 20 other tuition tax credit bills that have been introduced in the House and Senate since the beginning of the current session. Conceptually, the bills are similar, providing a tax credit for a portion of tuition paid for private education. The differences among the bills are in the amount of the tax credit, the portion of the tuition bill that is eligible for a tax credit, and on the issue of refundability. Many of the bills state that the tax credit could not be considered as federal aid to the school attended, in part to get around the separation of church and state requirements; and one, H.R. 486, introduced by Rep. Robert Roe (D-N.J.) would deny federal officials "additional authority" to examine the books or records of church controlled schools.

The Reagan administration has also promised to submit its own proposal for tuition tax credits to the Congress in the near future. Although it is unclear what form the bill will take, it is likely that it will follow trends similar to those bills that have already been introduced.

Summary of Studies on the Potential Impact of Tuition Tax Credits

In any discussion of tuition tax credits, the question of who will benefit the most from the tax credit is one of the paramount issues. Critics of tuition tax credits claim that the benefits will go mostly to the wealthy, while those with low incomes will still find it impossible to afford private school tuition. As a result, critics claim that tuition tax credits would simply provide an added incentive for the well-to-do to send their children to private schools, leaving the public schools with the poor and disadvantaged students whose parents cannot afford the benefits of a private education. Proponents of tuition tax credits claim on the other hand, that tax credits would allow low income parents to choose for their children those schools which they feel would best meet their children's needs for the first time.

Two major studies have attempted to determine the impacts of the passage of a tuition tax credit bill. A study published in the Winter 1980 Journal of Education Finance by Martha J. Jacobs attempts to determine the relative benefits of a tuition tax credit proposal by region, racial background and income.[1]

The Jacobs study found that although the participation rate in private schools was much higher in the Northeast and North Central areas of the country; (elementary school tuition is much higher in the West and

South). Therefore a disproportionate share of the benefits of a tuition tax credit plan would go to parents of elementary school children in the West and South. The report estimated that 41 percent of the elementary benefits would accrue to parents residing in the South although only 25 percent of the private school students in the United States live in the South. Because secondary school tuition costs are generally higher, and more consistent throughout the country, this pattern was not found to be as extensive at that level.

The study also found that although Black and Hispanic children represent approximately 20 percent of total elementary enrollment in the United States, they represent only 12 percent of the private school enrollments. As a result, 88 percent of the expected benefits of a tuition tax credit bill would go to White parents. At the secondary level, Black and Hispanic students make up only 8 percent of total private school enrollments while constituting approximately 20 percent of total secondary enrollments. As a result, 95 percent of the tax credit benefits flow to White parents. These findings are attributable in part to the fact that many of the Black and Hispanic students who are enrolled in private schools attend inner-city Catholic schools, where tuition costs are traditionally lower than in many other private institutions. As a result, the benefits of a tuition tax credit for parents of these children would be lower.

The Jacobs study also found that a disproportionate share of the benefits would go to high income families under a tuition tax credit plan. For example, the study found that while families with incomes over $25,000 a year accounted for 15 percent of total elementary school enrollments, they accounted for 23 percent of private elementary school

enrollments, and as a result would receive 33 percent of the total benefits from a tuition tax credit. At the secondary level, families with incomes over $25,000 a year accounted for 21 percent of the total number of students, and 36 percent of the secondary students enrolled in private schools. As a result, 41 percent of the benefits of a tuition tax credit at the secondary level went to families with incomes of over $25,000 a year.

A second study conducted by the Congressional Budget Office[2] found that tuition tax credits would be unlikely to benefit low income families. The study stated that the effect of a tax credit on families that sent children to public or private schools would depend on four factors: (a) the maximum credit, (b) the proportion of tuition costs covered, (c) the combination of elementary, secondary or college tuition cost to be offset, and (d) whether the credit is refundable for families that pay little or no tax.

The Congressional Budget Office concluded that as a general rule, higher-income families would benefit the most because they have larger tax payments to offset, and because they are more likely to send their children to higher cost schools. The Congressional Budget Office also contended that low-income families would fare better under a refundable scheme than under a plan that did not allow rebates. The report stated that lower-income families do not pay large taxes, and therefore would only receive a limited benefit if the credit were not refundable.

The Congressional Budget Office report estimates that a nonrefundable tax credit plan that offered credits of up to $250 on half of tuition costs would cost the federal government $2.3 billion in 1982, with 60 percent or $1.38 billion going to families paying elementary and

secondary tuition. By making the tax credit refundable, the revenue loss would increase to $2.5 billion.

Other estimates of the cost of a tuition tax credit plan, based on a maximum credit of $500, reach $4 billion. Clearly, the higher the maximum credit, and the more students who are eligible, the higher the revenue loss to the federal government.

Current estimates[3] indicate that private schools receive between $50 and $70 per pupil in federal revenues through a number of programs which require school districts to make services funded with federal dollars available to private schools. At the same time, the federal government's share of revenue to public schools amounts to about $145 per student. The implementation of a tuition tax credit plan would increase the federal support for private students to as much as $500, depending on the level of the tax credit, considerably higher than the current level of support for public education.

In conclusion, what these studies show is that passage of tuition tax credit legislation would bring about a significant loss of revenue to the federal government. If this loss were subtracted from current federal outlays for public schools, the results could be devastating. In addition, the studies cited above appear to indicate that the enactment of a tuition tax credits bill benefit White and middle to upper income families the most, as well as distribute the largest portion of benefits to the South.

FOOTNOTES

1. Jacobs, Martha J. "Tuition Tax Credit for Elementary and Secondary Education: Some New Evidence on Who Would Benefit", Journal of Education Finance, Volume 5, Number 3, Winter 1980, pages 223-45.

2. Congressional Budget Office. Human Resources and Community Development Division. A Memorandum on Expected Impact of Tuition Tax Credits: Cited in the Department of Education Weekly, Volume 2, Number 13, March 9, 1981, pages 4-6; and Report on Educational Research, March 4, 1981, pages 4-5.

3. See "Tuition Tax Credit Rebate Centers On Local Control", Education Daily, Volume 14, Number 22, February 3, 1981, pages 5-6.